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# Philippines

# COFFEE ANNUAL

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**Report Highlights:**
Philippine coffee production declined slightly from 97,890MT in 2007 to 97,430 MT last year, due to some shift from coffee to banana, rubber and palm oil production in Mindanao. Last year, average farmgate price of coffee beans improved by nearly 15 percent. Imports of coffee bean declined sharply in 2008 which was compensated by an marked increase in imports of soluble coffee by as much as 300 percent.

**Commodities:**
Coffee, Green

**Production:**

**Production**

According to the Philippine Department of Agriculture's Bureau of Agricultural Statistics (BAS), total coffee production declined slightly from 97,890 MT (dried berry basis) reported in 2007 to 97,430 MT last year. The slight drop in production was attributed in part to some shift from coffee to banana, rubber and palm oil production in Mindanao, particularly in North Cotabato, Davao del Norte and Compostela Valley. According to BAS, in 2008, the total area planted to all varieties of coffee remained about the same at 124 thousand hectares.

The Philippines lies in a narrow area in the world called the coffee belt making it one of the few countries that can grow four varieties of coffee: Arabica, Excelsa, Liberica and Robusta.

| **Coffee: Philippine Production (dried berry basis) January-December, 2006-2008** | | | |
|---|---|---|---|
| **Region** | **2006** | **2007** | **2008** |
| Value Million Pesos | P4,954 | P5,496 | P6,205 |
| Volume Metric Tons | 104,086 | 97,890 | 97,430 |
| Ave. Farmgate Pesos/kg | P47.63 | P55.48 | P63.69 |

Source: Bureau of Agricultural Statistics

In 2008, the average composite farmgate price of coffee (all varieties) was P63.69/kg ($1.43), up nearly 15 percent from the previous year. In 2008, Robusta coffee prices increased by as much as 19 percent, while Arabica farmgate prices dropped 5 percent, from 2007 prices. The continued improvement in farmgate prices of coffee in 2008 will likely slowdown the shift to other high-value and low-maintenance crops and/or likely encourage more coffee production. In comparison, average farmgate prices of bananas increased by about 11 percent from P7.79/kg ($0.17) in 2007 to P8.67/kg ($ 0.19) in 2008; while rubber farmgate prices dropped by almost 9 percent from P42.72/kg ($0.93) in 2007 to P39.01/kg ($0.88) in 2008.

| **FARMGATE PRICES OF ROBUSTA, 2007-08 DRY BEANS (Pesos/kg) [1]** | | |
|---|---|---|
| | **2007** | **2008** |
| January | 54.99 | 62.28 |
| February | 58.35 | 68.94 |
| March | 60.72 | 76.07 |

| | | |
|---|---|---|
| April | 63.01 | 69.54 |
| May | 63.39 | 70.4 |
| June | 57.92 | 71.86 |
| July | 52.67 | 65.2 |
| August | 51.86 | 67.2 |
| September | 54.47 | 66.62 |
| October | 54.52 | 64.32 |
| November | 56.61 | 66.11 |
| December | 56.87 | 67.03 |
| **Average** | **57.12** | **67.96** |

Source: Bureau of Agricultural Statistics

| **FARMGATE PRICES OF ARABICA, 2007-08 DRY BEANS (Pesos/kg)** | | |
|---|---|---|
| | **2007** | **2008** |
| January | 63.08 | 67.56 |
| February | 67.51 | 68.37 |
| March | 67.31 | 70.1 |
| April | 73.81 | 79.8 |
| May | 44.31 | 47.4 |
| June | 44.48 | 48.67 |
| July | 78.43 | 50.88 |
| August | 80.28 | 51.2 |
| September | 47.13 | 52.23 |
| October | 40.78 | 52.35 |
| November | 52.92 | 45.97 |
| December | 53.51 | 46.8 |
| **Average** | **59.46** | **56.78** |

Source: Bureau of Agricultural Statistics

[1] As of May 7, 2009, US$1=P47.91, Ave. Exchange Rate in 2008, US$1=44.47; 2007 US$1=46.15

**Consumption:**

Despite the food and fuel crisis followed by the start of the global recession last year, Philippine GDP growth still managed to grow by 4.6 percent, slower compared to the 7.2 percent expansion in 2007. Remittances from Overseas Filipino Workers (OFWs) continued to be the bright spot of Philippine GDP reaching an estimated $17 billion last year. Local economists agree that OFW remittances have helped shield the Philippines from effects of the global economic meltdown in 2008. GRP planners predict the ill effects of the global crisis to be more pronounced in 2009 and expect OFW remittances to decline during the year.

Coffee is generally considered to be a household staple even among the lower economic classes. At present, soluble or instant coffee accounts for about 90 percent of all the coffee consumed in the Philippines. Domestic coffee consumption is estimated to remain relatively flat due to a predicted slowdown in overall food and beverage consumption, as well some shifting to other beverage substitutes such as teas by other consumers.

**Trade:**

Trade data from the Philippine National Statistics Office show that imports of coffee beans dropped to 15,700 MT 2008 from nearly 23,000 MT in 2007. Imports are sourced largely from neighboring Asian countries such as Vietnam (53 percent); Indonesia (43 percent) and others. It is likely that not all coffee imports are always accurately captured by the official government data due to the reported robust informal trade between Indonesia and the southern island of Mindanao, where majority of the coffee plantations are located and coffee manufacturers are operating. Imports of soluble coffee and coffee concentrates increased by more 300 percent, from 5,532 MT in 2007 to 13,906 MT in 2008, likely to compensate for the drop in coffee bean imports. Without significant increases in coffee production and with continued growth in domestic coffee consumption, imports of coffee bean or soluble coffee will likely remain high at estimated nearly 40 percent of total annual domestic requirement.

Exports of instant soluble coffee declined significantly from 1,500 MT in 2007 to just under 300 MT last year. Majority of the soluble coffee exported went to Thailand and South Korea. On the other hand, exports of coffee beans increased from 132 MT to nearly 1,165 MT, mostly to South Korea.

**Policy:**

The 2009 MFN and CEPT tariff rates for coffee have not changed from the previous year.

| Tariff Code | Description | MFN | CEPT | Remarks [1] |
|---|---|---|---|---|
| **09.01** | **Coffee, whether or not roasted or** | | | |
| | **decaffeinated coffee husks and skins; coffee** | | | |
| | **Substitutes containing coffee in any proportion** | | | |
| | - Coffee, not roasted | | | |
| 0901.11 | -- Not decaffeinated | | | |
| 0901.11.10 | --- Arabica WIB or Robusta OIB | | | |
| | A. In-Quota | 30 | 5 | Only for ID, LA & VN |
| | B. Out-of-Quota | 40 | 5 | Only for ID, LA & VN |
| 0901.11.90 | --- Other | | | |
| | A. In-Quota | 30 | 5 | Only for ID, LA & VN |
| | B. Out-of-Quota | 40 | 5 | Only for ID, LA & VN |
| 0901.12 | -- Decaffeinated | | | |
| 0901.12.10 | --- Arabica WIB or Robusta OIB | | | |
| | A. In-Quota | 40 | 5 | Except BN,KH,MM & TH |
| | B. Out-of-Quota | 40 | 5 | Except BN,KH,MM & TH |
| 0901.12.90 | --- Other: | | | |
| | A. In-Quota | 40 | 5 | Except BN,KH,MM & TH |
| | B. Out-of-Quota | 40 | 5 | Except BN,KH,MM & TH |
| | - Coffee, roasted | | | |

| | | | | |
|---|---|---|---|---|
| 0901.21 | -- Not decaffeinated | | | |
| 0901.21.10 | --- Unground | | | |
| | A. In-Quota | 40 | 5 | Except BN,KH,MM & TH |
| | B. Out-of-Quota | 40 | 5 | Except BN,KH,MM & TH |
| 0901.21.20 | --- Ground | | | |
| | A. In-Quota | 40 | 5 | Except BN,KH,MM & TH |
| | B. Out-of-Quota | 40 | 5 | Except BN,KH,MM & TH |
| 0901.22 | -- Decaffeinated | | | |
| 0901.22.10 | --- Unground | | | |
| | A. In-Quota | 40 | 5 | Except BN,KH,MM & TH |
| | B. Out-of-Quota | 40 | 5 | Except BN,KH,MM & TH |
| 0901.22.20 | --- Ground | | | |
| | A. In-Quota | 40 | 5 | Except BN,KH,MM & TH |
| | B. Out-of-Quota | 40 | 5 | Except BN,KH,MM & TH |
| 0901.90.00 | - Other | | | |
| | A. In-Quota | 40 | 5 | Except BN,KH,MM & TH |
| | B. Out-of-Quota | 40 | 5 | Except BN,KH,MM & TH |

Source: Tariff and Customs Code of the Philippines

**Marketing:**

According to Euromonitor, specialty coffee shops in the Philippines are expected to continue growing in coming years. specialty coffee shops grew in terms of number of outlets, transactions and value sales. With Starbucks gaining more popularity and other specialty coffee shops following suit, more such outlets are likely to appear. The strong growth is mainly attributed to good consumer demand, as coffee drinking has become a very popular social activity. Increasingly, Filipino consumers are settling for a good coffee instead of alcohol on a night out. Coffee shops have become a status symbol for younger consumers. Working people find these specialty coffee shops to be convenient places for afternoon business meetings. With the growing popularity of coffee drinking in the country, Filipinos have started to be more discriminating in their preferences for coffee, according to Euromonitor.

In the Philippines, multinational chains dominate specialty coffee shops. Led by Starbucks, specialty coffee shops have been enjoying robust growth since appearing in the late 1990s. Other popular foreign franchised specialty coffee shops include Seattle's Best, The Coffee Bean & Tea Leaf and UCC Coffee. Figaro Coffee Company, the most popular local specialty coffee shop in the Philippines, was actually established earlier than Starbucks in the country.

Recognizing the good growth potential for specialty coffee shops, many Filipino companies and even growers of locally produced coffee beans have opened their own businesses. The support of the local government and agriculture sector has also helped to rejuvenate the Philippine coffee industry.

**Euromonitor Outlook:** Specialty coffee shops grew faster than other cafés/bars in 2007, as the former recorded a double-digit percentage increase. This was mainly explained by the growing popularity of coffee, especially with its advertised health benefits, such as being a powerful antioxidant, and also due to enhanced product offerings. The mushrooming Business Process Outsourcing industry, which mostly works on the graveyard shift, has also significantly enhanced coffee product sales as coffee serves as a powerful antidote to sleepiness. The additional benefits of dining in specialty coffee shops, such as wi-fi access, also attracted more customers to these outlets. There was an expansion in the product offering in 2007 as more specialty coffee shops started offering bread, cakes and cookies, which mostly contained less fat and less sugar to attract the health conscious buyer. New drinks like tea and bottled water are now sold in specialty coffee shops as well.

**Production, Supply and Demand Data Statistics:**

| **PSD Table** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Country** | **Philippines** | | | | | | | | |
| **Commodity** | **Coffee, Green** | | | | | | (1000 HA)<br>(MILLION TREES)<br>(1000 60 KG BAGS) | | |
| | 2008 Revised | | | 2009 Estimate | | | 2010 Forecast | | |
| | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New |
| **Market Year Begin** | | 07/2007 | 07/2007 | | 07/2008 | 07/2008 | | 07/2009 | 07/2009 |
| Area Planted | 131 | 131 | 131 | 131 | 131 | 131 | | | 131 |
| Area Harvested | 114 | 114 | 114 | 114 | 114 | 114 | | | 114 |
| Bearing Trees | 89 | 89 | 89 | 91 | 91 | 89 | | | 89 |
| Non-Bearing Trees | 15 | 15 | 15 | 15 | 15 | 15 | | | 15 |
| Total Tree Population | 104 | 104 | 104 | 106 | 106 | 104 | | | 104 |
| Beginning Stocks | 137 | 137 | 137 | 134 | 134 | 134 | | | 135 |
| Arabica Production | 33 | 33 | 33 | 34 | 34 | 33 | | | 34 |
| Robusta Production | 630 | 630 | 630 | 630 | 630 | 625 | | | 625 |
| Other Production | 23 | 23 | 23 | 24 | 24 | 23 | | | 23 |
| Total Production | 686 | 686 | 686 | 688 | 688 | 681 | | | 682 |
| Bean Imports | 382 | 382 | 382 | 390 | 390 | 270 | | | 380 |
| Roast & Ground Imports | 3 | 3 | 3 | 3 | 3 | 3 | | | 3 |
| Soluble Imports | 50 | 50 | 50 | 54 | 54 | 130 | | | 75 |
| Total Imports | 435 | 435 | 435 | 447 | 447 | 403 | | | 458 |
| **Total Supply** | 1,258 | 1,258 | 1,258 | 1,269 | 1,269 | 1,218 | | | 1,275 |
| Bean Exports | 2 | 2 | 2 | 2 | 2 | 2 | | | 2 |
| Rst-Grnd Exp. | 0 | 0 | 0 | 0 | 0 | 0 | | | 0 |
| Soluble Exports | 62 | 62 | 62 | 62 | 62 | 16 | | | 62 |
| Total Exports | 64 | 64 | 64 | 64 | 64 | 18 | | | 64 |
| Rst,Ground Dom. Consum | 120 | 120 | 120 | 120 | 120 | 120 | | | 125 |
| Soluble Dom. Cons. | 940 | 940 | 940 | 940 | 940 | 945 | | | 950 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Domestic Use | 1,060 | 1,060 | 1,060 | 1,060 | 1,060 | 1,065 | | | 1,075 |
| Ending Stocks | 134 | 134 | 134 | 145 | 145 | 135 | | | 136 |
| **Total Distribution** | 1,258 | 1,258 | 1,258 | 1,269 | 1,269 | 1,218 | | | 1,275 |
| Exportable Production | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |